Background on MPSERS OPEB Budget Proposals

There are many questions surrounding the FY 25 state budget process, especially regarding the proposed use of the approximately $670 million from the “Other Post-Employment Benefits” (OPEB) unfunded actuarial accrued liability (UAAL) (i.e. debt) pay down. The Governor, Senate and House will each offer proposals on how best to use the funds to benefit educators and students.

First, the claims that any proposed use of this funding is a “raid” on the pension system is disingenuous and misleading. The memories of the 1990’s and early 2000’s poor policy choices which did raid the pension fund are still fresh in many people’s minds, but rest assured, this is ***not*** *a repeat of the “bad old days”.*

Here are the facts (courtesy of MEA Labor Economist, Tanner Delpier, PhD):

- The state maintains a large unfunded actuarial accrued liability or UAAL (i.e., debt) on MPSERS. This “debt” is composed of two separate components (or “buckets”): the UAAL on the pension system itself and a distinct UAAL on other post-employment benefits (OPEB), most notably, healthcare for retirees.

- Since 2012, the state has shared the cost of paying down the MPSERS UAAL with districts (which used to be entirely the responsibility of districts). Specifically, the state covers any UAAL above 20.96% of payroll. In FY 2024, the state’s share was 16.89% of MPSERS payroll.

- While the UAAL on the retirement component of MPSERS is still quite large, the separate OPEB fund of MPSERS is expected to be fully funded by FY 2025, eliminating any associated UAAL. If the state makes no changes to policy, it will over-fund the OPEB of MPSERS (126% and 170% in FY 2026 and 2028, respectively).

- Currently, the state pays about $670 million in OPEB UAAL costs (about 7% of MPSERS payroll).

- Without making any statutory (law) changes, ORS will be required to charge districts the same UAAL rate as FY 2024. This applies to the fund that supports the pension benefit and the fund that supports OPEB. Consequently, retirement OPEB would be overfunded even as the pension fund remains underfunded. Leaving the current statute would not pay down the total MPSERS UAAL faster than the target date and would reduce the funding available to support current students.

Put into simplified terms, if the MPSERS UAAL is your mortgage debt and the OPEB UAAL is your credit card debt, once the credit card debt is paid off, you stop paying that bill – and you don’t necessarily spend the extra money on paying down your mortgage faster if you have other household expenses. When it comes to Michigan public education, those “other expenses” equates to the need to adequately fund public education so schools – from preK through higher education – can pay competitive wages to educators and support staff.

There are several ideas on how best to redistribute these funds from the Governor, Legislature, and other education groups. *The MEA is a part of these conversations and is supportive of spending these available funds, so long as the employees who are paying 3% of their salary to pay of the OPEB UAAL see individual financial benefits from whatever policy decision is made* and *that that the funding remain in PreK-12 programs.*